

OTTUMWA WATER WORKS
OTTUMWA, IOWA

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

DECEMBER 31, 2012

OTTUMWA WATER WORKS

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OTTUMWA WATER WORKS

OFFICIALS
DECEMBER 31, 2012

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Teri Messerschmitt	Water Works Trustee	July, 2013
Pete Rich	Water Works Trustee	July, 2014
Clive Parcell	Water Works Trustee	July, 2015
Barb Allison	Water Works Trustee	July, 2016
Skip Stevens	Water Works Trustee	July, 2018
Michael Heffernan	General Manager	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Ottumwa Water Works
Ottumwa, Iowa

We have audited the accompanying financial statements of Ottumwa Water Works, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Ottumwa Water Work's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ottumwa Water Works, as of December 31, 2012, and the changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedule of finding progress for the retiree health plan on pages 4 through 6 and 19 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Ottumwa Water Work's basic financial statements.

The detail schedule of revenues and expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the detail schedule of revenues and expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
August 27, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Ottumwa Water Works provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the calendar year ended December 31, 2012. We encourage readers to consider this information in conjunction with the Utility's financial statements which follow.

FINANCIAL HIGHLIGHTS

The Utility's operating revenues increased by approximately 7.5% or \$433,764 from 2011 to 2012. Increases in revenue from the sale of water accounted for the majority of the increase.

The Utility's operating expenses increased approximately 0.9% or \$46,608 from 2011 to 2012. This increase included an increase in production and distribution expenses and a decrease in general plant expenses.

The Utility's net position increased approximately 2.3% or \$551,858 from 2011 to 2012.

USING THIS ANNUAL REPORT

The Ottumwa Water Works is a publicly owned utility and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis is intended to serve as an introduction to Ottumwa Water Work's basic financial statements. The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The Statement of Net Position presents information about the Utility's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position is the basic statement of activities for proprietary funds. This statement presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses and whether the Utility's financial position has improved or deteriorated as a result of the current year's activities.

The Statement of Cash Flows presents the change in the Utility's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utility financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the Utility's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the Utility's revenues and expenses.

FINANCIAL ANALYSIS OF THE UTILITY

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Utility's financial position. The Utility's net assets as of December 31, 2012 total \$24,491,184. This compares to \$23,939,326 as of December 31, 2011. A summary of the Utility's net assets as of December 31, 2012 and 2011 are presented below.

NET POSITION

	December 31,	
	<u>2012</u>	<u>2011</u>
Current assets	\$ 7,975,377	\$ 7,453,422
Capital assets at cost, less accumulated depreciation	28,802,750	27,558,846
Other assets	<u>108,772</u>	<u>113,772</u>
Total assets	<u>36,886,899</u>	<u>35,126,040</u>
Current liabilities	3,751,295	2,953,394
Long-term liabilities	<u>8,644,420</u>	<u>8,233,320</u>
Total liabilities	<u>12,395,715</u>	<u>11,186,714</u>
Unrestricted	4,829,172	5,082,026
Net investment in capital assets	<u>19,662,012</u>	<u>18,857,300</u>
Total net position	<u>\$ 24,491,184</u>	<u>\$ 23,939,326</u>

Statements of Revenues, Expenses and Changes in Net Position

Operating revenues are received from the sale of water to Ottumwa residents, sale of hydro electric power, and other miscellaneous income. Non-operating revenues and expenses include interest income and interest expense. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net position for the years ended December 31, 2012 and 2011 is presented below:

CHANGES IN NET POSITION

	Year Ended December 31,	
	<u>2012</u>	<u>2011</u>
Operating revenue:		
Sale of water	\$ 5,365,416	\$ 4,887,878
Sale of electricity	435,237	492,983
Miscellaneous income	<u>439,367</u>	<u>425,395</u>
Total operating revenue	<u>6,240,020</u>	<u>5,806,256</u>
Operating expenses:		
Production	1,527,070	1,239,906
Distribution	1,603,222	1,464,958
Hydro	204,178	218,312
Financial services	381,275	304,201
Administration	156,780	285,921
General plant	438,805	760,550
Depreciation and amortization	<u>1,152,296</u>	<u>1,143,170</u>
Total operating expenses	<u>5,463,626</u>	<u>5,417,018</u>
Operating income	776,394	389,238
Nonoperating revenue (expense):		
Interest income	64,505	84,144
Grant proceeds	-	565,830
Forgivable loan proceeds	-	560,000
Interest expense	<u>(289,041)</u>	<u>(290,491)</u>
Total nonoperating revenue (expense)	<u>(224,536)</u>	<u>919,483</u>
Change in net assets	551,858	1,308,721
Net position – Beginning of year	<u>23,939,326</u>	<u>22,630,605</u>
Net position – End of year	<u>\$ 24,491,184</u>	<u>\$ 23,939,326</u>

The Statement of Revenues, Expenses and Changes in Net Position reflects an increase at the end of the year in the net assets.

During calendar year 2012, operating revenues increased 7.5%, or \$433,764. Water revenue increased \$477,538 due to a 5% rate increase on July 1, 2012 and higher sales volume. Electricity revenue decreased \$57,746 or 11.7% due to river levels affecting when electricity was able to be produced. Increases in production, distribution, and financial services expenses, are offset by decreases in hydro, administration and general plant expenses.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing activities and investing activities. Cash provided by operating activities include the sale of water, electricity and other receipts reduced for payments to suppliers and employees. Cash used in capital and related financing activities include the purchase of capital assets. Cash flows used in investing activities include interest income and the purchase and redemption of certificates of deposit. Cash flows provided by financing activities include proceeds and payments related to the Utility's debt.

Budget

The Utility submits a budget to the City of Ottumwa on an annual basis. Receipts for the year exceeded the amounts budgeted by \$133,325 and disbursements were less than amounts budgeted by 1,516,550. The increase in receipts was a result of charges for services in excess of the amount budgeted due to a rate increase and increased volume.

CAPITAL ASSETS

At December 31, 2012, the Utility had \$28,802,750, invested in capital assets, net of accumulated depreciation of \$22,020,663. Depreciation and amortization charges totaled \$1,152,296 for the year. More detailed information about the Utility's capital assets is presented in the Notes to Financial Statements.

LONG-TERM DEBT

At December 31, 2012, the Utility had \$9,210,677 in total long-term debt outstanding. During the year ended December 31, 2012, the Utility issued a total of \$952,722 of long-term debt to finance Utility construction projects. Additional information regarding the Utility's long-term debt is included in the Notes to Financial Statements.

ECONOMIC FACTORS

During 2012, Ottumwa Waters Works' financial position increased. However, the current condition of the economy in the State continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

The Utilities distribution system requires constant maintenance and upkeep.

The continued inflationary increases in health care, chemicals, and energy costs.

Technology continues to expand and current technology becomes outdated presenting an on-going challenge to maintain up to date technology at a reasonable cost.

The Utility anticipates the current year will be much like the last and we will maintain a close watch over resources to maintain our ability to react to unknown issues.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ottumwa Water Works, P.O. Box 20, Ottumwa, Iowa, 52501.

OTTUMWA WATER WORKS

STATEMENT OF NET POSITION

DECEMBER 31, 2012

ASSETSCURRENT ASSETS:

Cash and cash equivalents	\$ 1,604,014
Certificates of deposit	4,740,000
Accounts receivable, net of allowance for uncollectible accounts of \$165,343	1,432,363
Inventory	170,282
Accrued interest receivable	1,879
Prepaid expenses	26,839
Total current assets	<u>7,975,377</u>

CAPITAL ASSETS:

Buildings	6,171,929
Water distribution system	42,058,463
Equipment and vehicles	1,073,832
Office equipment	236,968
Total	<u>49,541,192</u>
Less accumulated depreciation	<u>22,020,663</u>
Depreciated value of capital assets	27,520,529
Land	618,577
Construction in progress	663,644
Total capital assets	<u>28,802,750</u>

OTHER ASSETS:

Deferred charges - Debt issue costs	<u>108,772</u>
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TOTAL ASSETS 36,886,899CURRENT LIABILITIES:

Accounts payable	1,131,614
Accrued payroll and related expenses	51,327
Accrued interest	41,336
Sales tax	19,224
Sick leave	196,297
Accrued vacation	72,912
Self insurance	77,437
Accrued disability and life insurance	92,600
Customer deposits	247,902
Current maturities of long-term liabilities	566,257
Accrued sewer and refuse collections	1,254,389
Total current liabilities	<u>3,751,295</u>

LONG-TERM LIABILITIES - Less current maturities8,644,420TOTAL LIABILITIES 12,395,715NET POSITION:

Unrestricted	4,829,172
Net investment in capital assets	19,662,012

TOTAL NET POSITION \$ 24,491,184

See Accompanying Notes to the Financial Statements

OTTUMWA WATER WORKS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2012

OPERATING REVENUE:

Sale of water	\$ 5,365,416
Sale of electricity	435,237
Miscellaneous income	439,367
Total operating revenue	<u>6,240,020</u>

OPERATING EXPENSES:

Production	1,527,070
Distribution	1,603,222
Hydro	204,178
Financial services	381,275
Administration	156,780
General plant	438,805
Depreciation and amortization	1,152,296
Total operating expenses	<u>5,463,626</u>

OPERATING INCOME 776,394

NONOPERATING REVENUE (EXPENSE):

Interest income	64,505
Interest expense	(289,041)
Total nonoperating revenue (expense)	<u>(224,536)</u>

CHANGE IN NET ASSETS 551,858

NET POSITION - BEGINNING OF YEAR

23,939,326

NET POSITION - END OF YEAR

\$ 24,491,184

OTTUMWA WATER WORKSSTATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 5,952,875
Cash received from other operating receipts	439,367
Cash paid to suppliers for goods and services	(2,135,706)
Cash paid to employees for services	(1,499,601)

NET CASH PROVIDED BY OPERATING ACTIVITIES 2,756,935

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of capital assets	(2,391,203)
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CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on investments	64,678
Purchase of certificates of deposit	(3,240,000)
Proceeds from certificates of deposit	2,190,000

NET CASH USED IN INVESTING ACTIVITIES (985,322)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from long-term debt	952,722
Principal payments on long-term debt	(513,530)
Payment of interest on long-term debt	(289,041)

NET CASH PROVIDED BY FINANCING ACTIVITIES 150,151

NET DECREASE IN CASH AND CASH EQUIVALENTS (469,439)

CASH AND CASH EQUIVALENTS - Beginning of year

2,073,453

CASH AND CASH EQUIVALENTS - End of year

\$ 1,604,014

RECONCILIATION OF OPERATING INCOME TO NET CASHPROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 776,394
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	1,152,296
Increase in allowance account	16,500
Change in operating assets and liabilities:	
Decrease in accounts receivable	3,131
Decrease in inventory	40,682
Increase in prepaid expenses	(1,877)
Increase in accounts payable	578,089
Increase in accrued payroll and related expenses	12,917
Increase in accrued interest	3,397
Increase in sales tax	2,494
Decrease in sick leave	(6,412)
Decrease in accrued vacation	(3,400)
Increase in self insurance	34,992
Decrease in accrued disability and life insurance	(39,607)
Increase in customer deposits	14,751
Increase in accrued sewer and refuse collections	154,953
Increase in net OPEB obligation	17,635

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 2,756,935

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid for interest	\$ <u>285,644</u>
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OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ottumwa Water Works is organized as a municipal water utility which was established in 1910. They are overseen by a five member board appointed by the City Council and Mayor of the City of Ottumwa. The Utility's operating budget is subject to the approval of the City Council. The Ottumwa Water Works is considered by the City of Ottumwa to be substantially autonomous. The Ottumwa Water Works is funded entirely by water user charges collected from users of the Ottumwa Water Works' system.

The financial statements of the Ottumwa Water Works are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, Ottumwa Water Works has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utility. Ottumwa Water Works has no component units which meet the Governmental Accounting Standards Board criteria.

Ottumwa Water Works is not presented as a Component Unit in the City of Ottumwa's financial statements. The Utility is a legally separate entity from the City, but is financially accountable to the City. The Utility is governed by a five-member Board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

Basis of Presentation

The accounts of the Ottumwa Water Works are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Ottumwa Water Works applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements; Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Ottumwa Water Works distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

OTTUMWA WATER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash, Investments and Cash Equivalents – The Ottumwa Water Works considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at December 31, 2012 include certificates of deposit of \$4,740,000.

Accounts Receivable – Ottumwa Water Works grants credit to customers, substantially all of whom are located in Ottumwa, Iowa. The risk of loss on the accounts receivable is the balance due at the time of default. Accounts receivable are considered past due after 30 days and are charged off when management determines the account is uncollectible. The Ottumwa Water Works uses the reserve method of accounting for uncollectible accounts. At December 31, 2012, a reserve of \$165,343 is provided to allow for uncollectible customer accounts.

Material and Chemicals Inventory – Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market.

During 1992, the Ottumwa Water Works changed its purchased material goods inventory to carry only selected groups of items and material individual items over a predetermined dollar amount. All other small parts and immaterial cost items will be expensed when purchased.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation/amortization of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation/amortization of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the Utility as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of one year.

<u>Asset Class</u>	<u>Amount</u>
Buildings	\$ 500
Water distribution system	500
Equipment and vehicles	500
Office equipment	500
Intangible assets	500

Capital assets of the Utility are depreciated/amortized using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful lives (In years)</u>
Buildings	15-25
Water distribution system	40-50
Equipment and vehicles	5-7
Office equipment	5-7
Intangible assets	5-7

Interest is capitalized on qualified assets acquired with certain debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. There were no qualifying assets acquired during the year ended December 31, 2012.

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences – Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The Utility's liability for accrued vacation has been computed based on rates of pay in effect at December 31, 2012.

Use of Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Budgets and Budgetary Accounting – The Budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2012, disbursements did not exceed the amounts budgeted.

NOTE 2 – CASH AND INVESTMENTS

The Utility's deposits in banks at December 31, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Municipal Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

NOTE 3 – CAPITAL ASSETS

A summary of capital assets at December 31, 2012 is as follows:

	Balance December 31, 2011	Additions/ Reclassifications	Deletions/ Reclassifications	Balance December 31, 2012
Capital assets, being depreciated/amortized:				
Buildings	\$ 6,305,772	\$ 57,775	\$ 191,618	\$ 6,171,929
Water distribution system	41,717,195	1,805,925	1,464,657	42,058,463
Equipment and vehicles	1,936,688	73,965	936,821	1,073,832
Office equipment	663,592	-	426,624	236,968
Total capital assets, being depreciated/amortized	50,623,247	1,937,665	3,019,720	49,541,192
Less accumulated depreciation/amortization	23,893,084	1,147,296	3,019,717	22,020,663
Total capital assets being depreciated/amortized, net	26,730,163	790,369	3	27,520,529
Capital assets, not being depreciated/amortized:				
Land	618,577	-	-	618,577
Construction in progress	210,106	2,317,238	1,863,700	663,644
Capital assets, net	\$ 27,558,846	\$ 3,107,607	\$ 1,863,703	\$ 28,802,750

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 4 – PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.78% and 5.38% of their annual covered salary and the Utility is required to contribute 8.67% and 8.07% of annual covered payroll for the years ended June 30, 2012 and 2011, respectively. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended December 31, 2012, 2011 and 2010 were \$115,409, \$101,850, and \$91,180, respectively, equal to the required contributions for each year.

NOTE 5 – SELF INSURANCE PROGRAM

The Utility has a self-insurance program for hospitalization and medical coverage for its employees. The program is administered through a service agreement with Cottingham Butler. The Utility limits its losses through the use of stop-loss policies from reinsurers. Specific individual losses for claims are limited to \$20,000 a year. The Utility's aggregate annual loss limitation is based on a formula that considers, among other things, the total number of employees. For December 31, 2012, the Utility incurred \$502,793 in expense under the program.

Amounts payable by Ottumwa Water Works at December 31, 2012 total \$77,437 which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on estimates of the amounts necessary to pay prior-year and current-year claims. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement Number 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims as of December 31, 2011	\$ 42,455
Incurred claims (including claims incurred but not reported as of December 31, 2012):	
Provision for current-year events where the Utility has retained risk of loss	502,793
Payments:	
Claims attributable to current-year events where the Utility has retained risk of loss	<u>467,811</u>
Unpaid claims as of December 31, 2012	\$ <u>77,437</u>

NOTE 6 – OTHER EMPLOYEE BENEFITS

The Water Works employees accumulate sick leave and vacation hours for subsequent use. The liability for accrued vacation at December 31, 2012 is \$72,912. The Water Works has a policy of paying one-half of the unused accumulated sick leave upon retirement of any employee. The maximum number of days an employee can accumulate is 120. Upon the death of any employee, 100% of the accumulated sick leave is paid. One-half of unused sick leave totals \$196,297, and is reflected in the financial statements as a liability at December 31, 2012.

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012

NOTE 6 – OTHER EMPLOYEE BENEFITS (Continued)

Effective November 1, 1989, the Ottumwa Water Works began a long-term disability plan. Once an employee has accumulated the maximum number of days of sick leave referred to in the preceding paragraph, they begin to accumulate long-term disability days. The days are accumulated at 50% of the normal sick leave accrual rate, and the maximum number of days to be accrued is 120. The compensation is computed at 60% of the employee's normal salary and is paid only after all normal sick leave benefits are exhausted.

The amount of the accrual reflected on the balance sheet at December 31, 2012 for the long-term disability benefit is \$88,600.

NOTE 7 – POST RETIREMENT BENEFITS

On July 22, 1992, the Ottumwa Water Works approved a policy to drop the group term life insurance coverage on existing retirees and instead pay a one-time death benefit equal to the term coverage in effect as of this date. The total death benefit payable as of December 31, 2012 was \$4,000 and covers four retirees. Only these four retirees are covered by this provision. Any other employees retiring on or after July 22, 1992 will not receive this benefit.

NOTE 8 – DESIGNATED ASSETS

The Ottumwa Water Works has designated assets comprised of demand deposits, passbook savings, and certificates of deposits that are to be used for a specific purpose. A summary of the designated assets is as follows:

Meter Deposit Fund – This fund is used to account for cash collected on customer deposits. The amount designated for the meter deposit fund as of December 31, 2012 is \$240,000.

NOTE 9 – RELATED PARTY TRANSACTIONS

The Ottumwa Water Works provides billing and collection services to the City of Ottumwa for sewer and refuse services. The following is a summary of the balances due to the City at December 31, 2012:

Accrued sewer services charges	\$ 940,225
Accrued refuse collection fees	<u>314,164</u>
Total accrued sewer and refuse collections	\$ <u>1,254,389</u>

NOTE 10 – LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended December 31, 2012, is as follows:

	Balance Beginning Of Year	Increases	Decreases	Balance End Of Year	Due Within One Year
Revenue Bonds	\$ 7,970,743	\$ 550,019	\$ 452,000	\$ 8,068,762	\$ 494,600
Contract Payable	730,803	402,703	61,530	1,071,976	71,657
Net OPEB Liability	<u>52,304</u>	<u>17,635</u>	<u>-</u>	<u>69,939</u>	<u>-</u>
Total	\$ <u>8,753,850</u>	\$ <u>970,357</u>	\$ <u>513,530</u>	\$ <u>9,210,677</u>	\$ <u>566,257</u>

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 10 – LONG-TERM LIABILITIES (Continued)

Contract Payable to City of Ottumwa, Iowa

During 2006, 2010 and 2012, the Ottumwa Water Works entered into agreements with the City of Ottumwa, Iowa, which are related to the City's sewer separation project. In the agreements, the Ottumwa Water Works agrees to reimburse the City for the cost of the project that relates to water main replacement. The City of Ottumwa, Iowa has paid for the entire cost of the project by issuing revenue bonds and the Water Works will pay the City of Ottumwa, Iowa for its portion of the project. Phase I requires twenty annual installments of \$35,785 starting June 1, 2008. Phase II requires eight annual installments of \$45,778 starting June 1, 2010. Phase III requires thirty annual installments of \$21,215. Interest rates vary from 2.00% to 3.25%.

Iowa Department of Natural Resources

On June 2, 2005, the Utility entered into agreements with the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$4,000,000 of water revenue bonds, with an interest rate of 3.0% per annum. The bonds also require the utility to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384 and Section 384.24A of the Code of Iowa to pay the costs of constructing improvements and extensions to the water system.

On December 28, 2006, the Utility entered into agreements with the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$4,800,000 of water revenue bonds, with an interest rate of 3.0% per annum. The bonds also require the Utility to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384 and Section 384.24A of the Code of Iowa to pay the costs of constructing improvements and extensions to the water system.

On March 31, 2011, the Utility entered into agreements with the Iowa Department of Natural Resources and the Iowa Finance Authority for the issuance of \$1,400,000 of water revenue bonds, with an interest rate of 3.0% per annum. The loans also require the Utility to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384 and Section 384.24A of the Code of Iowa to pay the costs of constructing improvements and extensions to the water system. During the year ended December 31, 2012, the Utility paid interest of \$24,120 on this loan.

On September 7, 2011, the Utility entered into agreements with the Iowa Department of Natural Resources and the Iowa Finance Authority for the issuance of \$1,666,000 of water revenue bonds, with an interest rate of 3.0% per annum. The loans also require the Utility to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384 and Section 384.24A of the Code of Iowa to pay the costs of constructing improvements and extensions to the water system. During the year ended December 31, 2012, \$442,057 was drawn down on the loan.

Included in the loan is a provision for forgivable water revenue bonds. If certain conditions are met the bonds are 40% forgivable. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa and the American Recovery and Investment Act of 2009 (ARRA) for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the water system. If the requirements of ARRA, including, but not limited to, satisfaction of applicable timing requirements are not met and the loan is not forgiven, the Utility will pay interest at 3.0% per annum, an annual .25% servicing fee on the outstanding principal balance (including undisbursed loan proceeds) and an initiation fee of 1% of the authorized loan. The Utility received funds from the DNR upon request to reimburse the Utility for costs as incurred. At December 31, 2012, the Utility had not yet met the requirements for the loan to be forgiven.

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012

NOTE 10 – LONG-TERM LIABILITIES (Continued)

Iowa Department of Natural Resources (Continued)

On October 19, 2012, the Utility entered into agreements with the Iowa Department of Natural Resources and the Iowa Finance Authority for the issuance of \$1,250,000 of water revenue bonds, with an interest rate of 2.0% per annum. The loans also require the Utility to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384 and Section 384.24A of the Code of Iowa to pay the costs of constructing improvements and extensions to the water system. During the year ended December 31, 2012, \$86,368 was drawn down on the loan. During the year ended December 31, 2012, the Utility paid interest of \$15 on this loan. Included in the \$1,250,000 loan is a provision for forgivable water revenue bonds. If certain conditions are met the bonds are 20% forgivable. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa and the American Recovery and Investment Act of 2009 (ARRA) for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the water system. If the requirements of ARRA, including, but not limited to, satisfaction of applicable timing requirements are not met and the loan is not forgiven, the Utility will pay interest at 3.0% per annum, an annual .25% servicing fee on the outstanding principal balance (including undisbursed loan proceeds) and an initiation fee of 1% of the authorized loan. The Utility received funds from the DNR upon request to reimburse the Utility for costs as incurred. During the year ended December 31, 2012, the Utility drew down \$21,593 of the forgivable loan, bringing the total drawdowns to \$21,593. At December 31, 2012, the Utility had not yet met the requirements for the loan to be forgiven.

At December 31, 2012, the Utility had drawn \$10,812,762 including initiation fees of \$140,288.

Expected repayment schedules for all of the Utility's long-term debt are as follows:

Year Ended December 31	<u>Fully Matured</u>		<u>City of Ottumwa</u>		<u>IDNR SRF</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 7,000	\$ 1,562	\$ 71,657	\$ 34,840	\$ 501,600	\$ 234,467	\$ 580,257	\$ 270,869
2014	-	-	73,985	32,511	558,000	218,687	631,985	251,198
2015	-	-	76,390	30,105	576,000	201,997	652,390	232,102
2016	-	-	78,873	27,622	573,961	184,984	652,834	212,606
2017	-	-	81,436	25,060	566,000	167,908	647,436	192,968
2018 to 2022	-	-	202,856	99,302	3,003,000	569,772	3,205,856	669,074
2023 to 2027	-	-	238,033	64,124	2,283,201	136,809	2,521,234	200,933
2028 to 2032	-	-	70,063	36,013	-	-	70,063	36,013
2033 to 2037	-	-	82,213	23,863	-	-	82,213	23,863
2038 to 2042	-	-	96,470	9,606	-	-	96,470	9,606
	<u>\$ 7,000</u>	<u>\$ 1,562</u>	<u>\$ 1,071,976</u>	<u>\$ 383,046</u>	<u>\$ 8,061,762</u>	<u>\$ 1,714,624</u>	<u>\$ 9,140,738</u>	<u>\$ 2,099,232</u>

NOTE 11 – RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Utility assumes liability for any deductibles and claims in excess of coverage limitations.

NOTE 12 – MAJOR CUSTOMERS

Sales to two major customers accounted for greater than 10% of total sales for the year ended December 31, 2012. At December 31, 2012, amounts due from these customers were \$246,459.

OTTUMWA WATER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Prior to December 31, 2012, the Utility had signed various contracts for construction projects in conjunction with the City of Ottumwa, Iowa that are summarized below:

Total commitments	\$ 260,523
Amounts paid or accrued	<u>(219,412)</u>
Remaining commitments	\$ <u>41,111</u>

The remaining balance at December 31, 2012 will be paid as work on the projects progress.

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The Utility operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 5 active and 13 retired members in the plan. The current eligible group is frozen, there will be no new entrants to the plan.

The medical coverage is provided through a partially self funded plan administered by Cottingham Butter.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Utility. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The Utility's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Utility, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Utility's annual OPEB cost for the year ended December 31, 2012, the amount actually contributed to the plan and changes in the Utility's net OPEB obligation:

Annual required contribution	\$ 44,599
Interest on net OPEB obligation	2,615
Adjustment to annual required contribution	<u>(1,389)</u>
Annual OPEB cost	45,825
Contributions made	<u>(28,190)</u>
Increase in net OPEB obligation	17,635
Net OPEB obligation beginning of year	<u>52,304</u>
Net OPEB obligation end of year	\$ <u>69,939</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as January 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended December 31, 2012.

For the year ended December 31, 2012, the Utility contributed \$28,190 to the medical plan.

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>% of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
2010	\$ 80,069	76.18%	\$ 42,878
2011	80,426	88.83	52,304
2012	45,825	61.52	69,939

Funded Status and Funding Progress – As of January 1, 2012, the most recent actuarial valuation date for the period January 1, 2012 through December 31, 2012, the actuarial accrued liability was \$410,633 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$410,633. The covered payroll (annual payroll of active employees covered by the plan) was \$228,152 and the ratio of the UAAL to covered payroll was 1.80%. As of December 31, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the January 1, 2012 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 5% discount rate based on the Utility's funding policy. The projected annual medical trend rate is 5%. The ultimate medical trend rate is 4%. The medical trend rate is reduced 0.5% each year until reaching the 4% ultimate trend rate. An inflation rate of 0% is assumed for purposes of this computation.

Mortality rates are from the 1983 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed using the alternate valuation method as prescribed in GASB 45.

The UAAL is being amortized as a level percentage over 25 years.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 27, 2013, the date the financial statements were available to be issued.

OTHER INFORMATION

OTTUMWA WATER WORKS

BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS AND CHANGES IN
BALANCES - BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2012

	<u>Actual</u>	<u>Adjustments</u>	<u>Net</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Receipts:					
Use of money and property	\$ 64,505	\$ -	\$ 64,505	\$ 85,000	\$ (20,495)
Charges for service	6,240,020	-	6,240,020	6,046,200	193,820
Miscellaneous	-	-	-	40,000	(40,000)
	<u>6,304,525</u>	<u>-</u>	<u>6,304,525</u>	<u>6,171,200</u>	<u>133,325</u>
Disbursements:					
Business-type activities	<u>5,752,667</u>	<u>1,752,437</u>	<u>7,505,104</u>	<u>9,021,604</u>	<u>1,516,500</u>
Excess (deficiency) of receipts over (under) disbursements	551,858	(1,752,437)	(1,200,579)	(2,850,404)	1,649,825
Other financing sources, net	-	<u>952,722</u>	<u>952,722</u>	<u>2,400,000</u>	<u>(1,447,278)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	\$ <u>551,858</u>	\$ <u>(799,715)</u>	\$ <u>(247,857)</u>	\$ <u>(450,404)</u>	\$ <u>202,547</u>

NOTES TO OTHER INFORMATION - BUDGETARY REPORTING

YEAR ENDED DECEMBER 31, 2012

The budgetary comparison is presented as Required Supplementary information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences.

In accordance with the Code of Iowa, the Utility annually adopts a budget on the modified accrual basis following required public notice and hearing. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of expenses known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government; debt service, capital projects and business-type activities. Although the budget document presents function expenses by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

OTTUMWA WATER WORKS

SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN

REQUIRED SUPPLEMENTARY INFORMATION

<u>Year Ended</u> <u>December 31,</u>	<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b - a)</u>	<u>Funded</u> <u>Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a) / c)</u>
2009	January 1, 2009	\$ -	\$ 1,360,045	\$ 1,360,045	0 %	\$ 280,849	4.84 %
2010	January 1, 2009	-	1,360,045	1,360,045	0	288,756	4.71
2011	January 1, 2009	-	1,360,045	1,360,045	0	284,278	4.78
2012	January 1, 2012	-	410,633	410,633	0	228,152	1.80

See Note 14 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

OTTUMWA WATER WORKS

DETAIL SCHEDULE OF REVENUES AND EXPENSES
YEAR ENDED DECEMBER 31, 2012

OPERATING REVENUE:

Sale of water	\$ 5,365,416
Sale of electricity	435,237
Miscellaneous income:	
Fire protection - Private	155,336
Customer forfeitures	29,866
Service connections	46,383
Service charge - Sewer billing	69,960
Service charge - Refuse billing	36,696
Miscellaneous	101,126
TOTAL OPERATING REVENUE	<u>6,240,020</u>

OPERATING EXPENSES:

Production:	
Supervision	92,541
Maintenance labor	87,691
Operations labor	166,304
Overtime/PTO/Etc.	79,937
Chemicals/carbon	392,117
Laboratory supplies	13,401
Employee benefits/taxes	210,190
Supplies/maintenance	484,889
	<u>1,527,070</u>
Distribution:	
Supervision	63,417
Maintenance labor	187,953
Meter labor	96,346
Overtime/PTO/Etc.	130,938
Maintenance materials	198,437
Contract street repairs	291,170
Employee benefits/taxes	271,433
Supplies/maintenance	363,528
	<u>1,603,222</u>
Hydro:	
Operations labor	75,440
Overtime/PTO/Etc.	25,018
Maintenance supplies	681
Lease and rentals	8,703
Employee benefits/taxes	53,623
Supplies/maintenance	40,713
	<u>204,178</u>
Financial services:	
Financial services supervision	53,930
Financial services labor	107,646
Overtime/PTO/Etc.	19,618
Office supplies	10,968
Postage expense	51,672
Noncollectible accounts	16,489
Employee benefits/taxes	75,569
Supplies/maintenance	45,383
	<u>381,275</u>

OTTUMWA WATER WORKS

DETAIL SCHEDULE OF REVENUES AND EXPENSES
YEAR ENDED DECEMBER 31, 2012

OPERATING EXPENSES: (Continued)

Administration:

Executive salaries	82,682
Board salaries	1,950
Overtime/PTO/Etc.	15,701
Employee benefits/taxes	21,323
Training expense	2,931
Subscriptions	8,215
Legal services	18,237
Business expense	5,440
Supplies/maintenance	301
	<u>156,780</u>

General plant:

Employee's miscellaneous expense	12,485
General property expense	44,784
Safety program	8,124
Liability insurance	77,111
Workmen's compensation insurance	529
Group health insurance	82,096
Health insurance - Retirees	71,858
Contract labor	10,141
Fuel and power	2,095
General services/contingency	56,250
Gas and oil	32,852
Supplies/maintenance	40,480
	<u>438,805</u>

Depreciation and amortization	<u>1,152,296</u>
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TOTAL OPERATING EXPENSES	<u>5,463,626</u>
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OPERATING INCOME	776,394
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NONOPERATING REVENUE (EXPENSE):

Interest income	64,505
Interest expense	<u>(289,041)</u>
Total nonoperating revenue (expense)	<u>(224,536)</u>

CHANGE IN NET POSITION	\$ <u>551,858</u>
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Ottumwa Water Works
Ottumwa, Iowa

We have audited the financial statements of Ottumwa Water Works, as of and for the year ended December 31, 2012, which collectively comprise Ottumwa Water Works' basic financial statements and have issued our report thereon dated August 27, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Ottumwa Water Works, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Ottumwa Water Works' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ottumwa Water Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ottumwa Water Works' internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ottumwa Water Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
August 27, 2013

OTTUMWA WATER WORKS
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2012

Part I: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting

- II-A-12 Certified Budget – Disbursements during the year ended December 31, 2012 did not exceed the amounts budgeted.
- II-B-12 Questionable Expenses – No expenses that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-C-12 Travel Expense – No expenditures of money for travel expenses of spouses of Utility officials or employees were noted.
- II-D-12 Business Transactions – No business transactions between the Utility and Utility officials or employees were noted.
- II-E-12 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-12 Trustee Minutes – No transactions were found that we believe should have been approved in the minutes but were not.
- II-G-12 Revenue Bonds – No instances of non-compliance with the revenue bond provisions were noted.
- II-H-12 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted.